EXECUTIVE SECRETARIAT

Routing Slip

TO:

		ACTION	INFO	DATE	INITIAL
1	DCI				
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8	DDS&T				
9	Chm/NIC				
10	GC				
11	IG				
12	Compt				
13	D/EEO				
14	D/Pers				
15	D/OEA				
16	C/PAD/OEA				
17	SA/IA				
18	AO/DCI				
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20	NIO/ECON		✓		
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SUSPENSE ____________ Date

Remarks:

cc: [redacted] OGI

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Executive Secretary

21 Feb 83

Date

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THE WHITE HOUSE
WASHINGTON

Executive Registry
83-0995

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CABINET AFFAIRS STAFFING MEMORANDUM

DATE: 2-22-83 NUMBER: 118512CA DUE BY: ______

SUBJECT: Cabinet Council on Food and Agriculture - Wednesday, February 23 2:00 p.m. Roosevelt Room

	ACTION	FYI
ALL CABINET MEMBERS	☐	☐
Vice President	☑	☐
State	☑	☐
Treasury	☐	☑
Defense	☐	☑
Attorney General	☐	☑
Interior	☑	☐
Agriculture	☑	☐
Commerce	☑	☐
Labor	☐	☑
HHS	☐	☑
HUD	☐	☑
Transportation	☐	☑
Energy	☐	☑
Education	☐	☑
Counsellor	☑	☐
OMB	☐	☑
CIA	☐	☑
UN	☐	☑
USTR	☑	☐
CEA	☐	☑
CEQ	☐	☐
OSTP	☐	☐
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	ACTION	FYI
Baker	☑	☐
Deaver	☐	☐
Clark	☐	☑
Darman *(For WH Staffing)*	☑	☐
Harper	☑	☐
Jenkins	☐	☑
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CCCT/Gunn	☐	☐
CCEA/Porter	☐	☐
CCFA/Boggs	☑	☐
CCHR/Carleson	☐	☐
CCLP/Uhlmann	☐	☐
CCMA/Bledsoe	☐	☐
CCNRE/Boggs	☐	☐

REMARKS: The Cabinet Council on Food and Agriculture will meet Wednesday, February 23 at 2:00 p.m. in the Roosevelt Room. The agenda, Agricultural Exports CM # 204, and paper are attached.

RETURN TO:

☐ Craig L. Fuller
Assistant to the President
for Cabinet Affairs
456-2823

☑ Becky Norton Dunlop
Director, Office of
Cabinet Affairs
456-2800

DCI
EXEC
REG

THE WHITE HOUSE

WASHINGTON

CABINET COUNCIL ON FOOD AND AGRICULTURE

February 23, 1983

2:00 p.m.

Roosevelt Room

AGENDA

1. Agricultural Exports (CM#204)

CM204

THE WHITE HOUSE

WASHINGTON

February 18, 1983

MEMORANDUM FOR THE CABINET COUNCIL ON FOOD AND AGRICULTURE

FROM: DANNY J. BOGGS, EXECUTIVE SECRETARY

SUBJECT: CCFA Meeting February 23

The attached paper has been prepared by the Department of Agriculture giving background on the United States farm export situation and their view of several possible export initiaves.

This paper will be discussed at the CCFA on Feb. 23, 1983 at 2:00 p.m. in the Roosevelt Room.

THE EXPORT PROBLEM

The central problem is one shared by all of agriculture -- the decline in U.S. agricultural exports that began in FY 1982. This export decline -- after 12 years of general uptrend -- has compounded the downward curve in farm prices and incomes that began in 1980. The export situation will likely get worse before it gets better.

In fiscal year 1982, we experienced a $4.7 billion drop in U.S. agricultural exports. This followed a year in which farm product exports reached a record $43.8 billion -- a rise from $5.7 billion in 1969.

This was a remarkable era for agricultural trade -- the 1970's. It is not reasonable to expect that we could expand exports at that rate indefinitely into the future. Nevertheless, this sharp decline -- coming at a time of record crops and continued high production costs in this country -- has had a serious impact on U.S. farm income.

The fall in U.S. agricultural exports may have appeared sudden and precipitous to those of us conditioned to constant export growth, but some of the causal factors have in fact been building up for quite a while. The reasons for export slowdown can be summarized very briefly.

- --A sluggish world economy.
- --Large supplies in both exporting and importing countries.
- --A strong U.S. dollar relative to other currencies.
- --Continuing effects of the 1980 embargo
- --Trade restrictions and unfair competition from some other exporting countries.
- --Domestic loan levels that price some U.S. commodities out of the world market and make it easier for competitors to undercut our prices with export subsidies.

It should not be surprising that these various forces, occurring all at the same time, should make it impossible to continue the export growth of the 1970's. Unfortunately, we cannot look forward to a letup in these trends any time soon. Our projections point to a further decline of $2 billion in 1983 -- to a level near $36 billion at the end of this fiscal year.

Even more troubling is the fact that the United States is also suffering a decline in its <u>share</u> of the global market for agricultural products. This has serious implications for the longer term.

In 1980, the United States had 71 percent of the world market (excluding intra EC trade) for coarse grains. In 1982, we had only 59 percent of the global trade. Our share of the world wheat market rose from 44 percent in 1980 to 48 percent in 1982, but now appears to be declining.

We are also concerned about declines in our share of the global markets for cotton, soybean meal and oil, rice, and poultry.

When market share declines, it is not enough to tell ourselves that our export problems will be solved when the world economy improves. We are not just experiencing export value declines, as other exporting countries are, we are losing to those competitors a part of our traditional markets. This means that a renewal of U.S. export growth may be slow and difficult because market share, once lost, is very difficult to regain.

The loss of market share also tells us that we must take a hard look at the competitive problems that are responsible. Why are we seeing a decline in the U.S. share of the global market for agricultural products?

One reason is the growing use of export subsidies by competitor countries, especially the European Community. These subsidies are allowing those countries to undercut the world price, move into traditional U.S. markets, and capture market expansion that otherwise would have gone to U.S. producers.

A second reason for the loss of U.S. market share was the 1980 embargo of agricultural sales to the Soviet Union and the resulting Soviet reliance on other suppliers. In the first two years of the long-term U.S.-USSR grain agreement, the United States supplied two-thirds of the Soviets' corn and wheat imports. In the third year, the U.S. share was 78 percent. So?

With the embargo three years ago on shipments above the 8 million tons assured under the agreement, the U.S. share fell to 31 percent. Since the lifting of the embargo in April 1981, sales to the USSR have increased. But our share of that market continues in small fractions -- about one-third last year and less than one-fourth so far in 1982-83.

The point is that U.S. farmers missed out on the growth in the Soviet market, which virtually doubled in four years. As a result of the embargo and subsequent uncertainty about the United States' reliability as a supplier, the USSR turned to other countries which now hold the largest share of that market.

Third, the strong U.S. dollar, combined with high U.S. price support loan levels, have made U.S. exports very expensive in world markets. As a result, U.S. farm producing is moving into domestic storage instead of moving into export. In 1981, the United States held 35 percent of world grain stocks. Since then, U.S. stocks have more than doubled and this year will represent 60 percent of world stocks. ?

All of these factors continue to depress agricultural exports. Both trade and domestic policies need serious review in terms of their economic and political impact in the years immediately ahead.

POSSIBLE EXPORT INITIATIVES

The recent U.S. wheat flour sale to Egypt gave a boost to sagging U.S. wheat exports, was well received by our producers, exporters and flour milling industry, and strengthened our agricultural trade strategy with the European Community.

Outlined below are three additional proposals for expanding our exports of: 1) broilers, 2) soybean oil, 3) dairy products.

These proposals are supported by our producers and related industries and in the case of dairy products are being actively pursued by the importing countries.

Poultry PIK to Saudi Arabia -- Saudi Arabia is the world's largest broiler market. Presently, the U.S. cannot compete against Brazilian and EC export subsidies. We could compete with an export PIK and could sell 75-100,000 tons of whole broilers. This would require 125-170,000 tons of CCC corn and 60-90,000 tons of CCC soybeans. These PIK quantities match exactly the supplies needed to produce the broilers.

Soybean Oil Export PIK to India -- A soybean export PIK would allow us to compete with Brazilian soybean oil in India, the world's largest soybean oil market. U.S. exporters need to overcome a $20-$30 price differential. The tax rebate system in Brazil currently allows Brazilian soybean oil to sell at about $20 per ton under U.S. market prices. Using 1.4 million bushels of CCC-owned stocks as payment-in-kind to our crushers, we could compete and sell approximately 250,000 tons of soybean oil valued at about $90 million.

Milk Sale to Venezuela -- Venezuela has approached the U.S. for a direct purchase of whole milk powder, provided our price is competitive and we offer three year credit. We propose a 100,000 tons sale of CCC-owned NFDM plus the necessary butteroil to reconstitute the NFDM into whole milk. This sale would displace Venezuela's current major supplier, the EC, without interfering with smaller quantities supplied by New Zealand.

Poultry Export PIK Program

A PIK program to provide U.S. whole broiler exporters with sufficient quantities of CCC-owned commodities to make up the difference between U.S. delivered prices and those of subsidized competitors is appealing because it provides assistance through commodities readily available to the CCC. Targeting a specific country like Saudi Arabia, where U.S. exporters face a $350 per MT price disadvantage, could result in additional sales of 75-100 thousand tons of whole broilers and reduce CCC stocks of corn and soybeans by 125-170 thousand MT and 60-90 thousand MT, respectively.

Saudi Arabia would be an excellent target country since it is the single largest market (estimated 1983 imports at 150,000 tons) for whole broilers in the world. Most of this demand will be met by the EC and Brazil. Saudi Arabia is a market where U.S. traders have largely been preempted by subsidized competition from the EC and Brazil. U.S. exports of whole broilers to Saudi Arabia totalled only 222 tons in 1982. Saudi Arabia is also a country where whole broilers are imported by private traders rather than by government tenders as in markets like Iraq and Egypt. Saudi importers, therefore, are in the market on a regular basis and a PIK program would give American exporters the needed edge to be competitive against subsidized competition.

A PIK program for whole broilers would require that the CCC provide sufficient quantities of corn and soybeans to cover the broiler price differential of about $350 per MT. To produce one ton of broiler meat would require about 1.7 MT of corn and .875 MT of soybean (.7 MT of soymeal) using a standard 2/3 corn, 1/3 soymeal poultry feed ration. At $87 per MT for corn and $226 per MT for soybeans this would amount to a grant of approximately $346 per MT (1.7 x $87 + .875 x $226). This should be a sufficient quantity to enable U.S. broiler exporters to compete in Saudi Arabia.

A PIK program for broiler exports would probably be best administered on a bid basis. U.S. exporters could submit bids on a regular basis, perhaps every two weeks, and the CCC could accept those bids requiring the smallest amount of CCC corn and soybeans.

Anticipating sales of 75-100 thousand MT of whole broilers to Saudi Arabia as a result of this program, 125-170 thousand MT of corn would be taken out of CCC stocks and 60-90 thousand MT of soybeans would be withdrawn.

If no restrictions are placed on the quantities of corn and soybeans available under a poultry export PIK, the U.S. could meet a substantial portion of Saudi Arabia's import needs in 1983. U.S. exports of 75-100 thousand MT would earn approximately $75-100 million.

Export PIK: Soybean Oil to India

Proposal: 250,000 MT or 42,000 MT per month (two ships) for the period April-Sept. 1983. This would cover virtually all of India's soybean oil import requirements for the remainder of fiscal year 1983.

Procedure: CCC would negotiate with STC for a direct sale of soybean oil to India at a fixed price or at a discount based on Chicago futures. CCC would then sub-let the contract to U.S. crushers/exporters on a competitive bid basis, for supplies of soybeans from CCC stocks.

Cost: With a soybean oil price discount of $30 per ton and CCC soybeans valued at $5.60/bu, the cost would be $7.5 million or 1.4 million bushels of soybeans.

Pro: Would indicate to competing suppliers (ie., Brazil and Spain), who provide incentives to their crushing industries, that the U.S. intends to meet competition.

Would meet demands for assistance from U.S. soybean producers and crushers.

Con: Would not likely add significantly to total U.S. exports because of counteraction by Brazil and Spain in other markets.

Soybean market is tightening and CCC may be able to sell these beans back into the market later this year.

Oilseeds and Products Div.
February 15, 1983

Proposed Sale of Dairy Products to Venezuela

Venezuela is a significant importer of dry milk powder, with 1981 imports at 115,000 tons, of which 97,000 tons were whole dry milk and the balance nonfat dry milk (NFDM). The principal supplying countries were the EC (90 percent or 103,500 tons) and New Zealand (8 percent or 9,200 tons). Our Agricultural Counselor in Caracas has told us that Venezuela may be in the market soon for substantial quantities of dry milk powder.

The Corporacion de Mercadeo Agricola (CMA), an agency of the Government of Venezuela, has indicated to our Agricultural Counselor that CMA is interested in discussing a possible purchase of nonfat dry milk from Commodity Credit Corporation (CCC) provided the price is competitive and credit arrangements are extended to CMA. In addition, CMA is interested in the purchase of U.S. butteroil which would be used to reconstitute the NFDM into whole liquid milk. CCC has the authority to extend direct credit on sales of commodities owned by the Corporation. We recently used this authority in making a large sale of NFDM to Mexico.

Our proposal is to offer CMA 60 to 90 thousand metric tons of CCC-owned NFDM and a quantity of butteroil necessary to reconstitute the NFDM into whole fluid milk. The butteroil would be processed from CCC-owned butter. Prices would be negotiated at world market levels with credit terms similiar to the terms recently extended to Mexico, i.e. 16 month terms with interest at 1/4 percent over the U.S. prime rate.

It may also be necessary to provide a price adjustment mechanism in the contract to assure a long-term supply agreement. This would involve establishing a base price with subsequent adjustments based on consultations between CCC and CMA. We will endeavor to obtain assurance from CMA that any arrangement we negotiate will not disrupt normal purchases from New Zealand.